

Message Text

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INFO OCT-01 ISO-00 /001 R

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DRAFTED BY: S/S:MTANNER

APPROVED BY: S/S-O: M TANNER

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C O N F I D E N T I A L STATE 207600

NODIS

FOL REPEAT OF JERUSALEM 1448 TO SECSTATE AUG 30

QT:

C O N F I D E N T I A L JERUSALEM 1448

NODIS

HANDLE AS EXDIS

FOR ENDERS (EB) AND LEWIS (SP) FROM LORD

PLEASE PASS TO MOYNIHAN FOR HIS REVIEW

E.O. 11652: GDS

TAGS: OVIP (KISSINGER, HENRY A.)

SUBJECT: UNGA SPEECH

FOLLOWING IS THE ECONOMIC SECURITY SECTION OF DRAFT
NUMBER 10.

BEGIN TEXT.

1. OUR FIRST TASK IS TO ENSURE BASIC ECONOMIC SECURITY.
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WM THE SWINGS AND SHOCKS OF ECONOMIC ADVERSITY
ARE A GLOBAL CONCERN, TEARING AT THE FABRIC OF

DEVELOPED AND DEVELOPING NATIONS ALIKE. THE CYCLE
OF GOOD TIMES AND BAD, ABUNDANCE AND FAMINE, DOES

VAST DAMAGE TO LIVES AND ECONOMIES. UNEMPLOYMENT, FALLING STANDARDS OF LIVING, AND THE RAVAGES OF INFLATIONS, FUEL SOCIAL AND POLITICAL DISCONTENT. WE HAVE RECENTLY SEEN THE CORROSIVE EFFECTS IN MANY COUNTRIES.

3. DEVELOPING ECONOMIES ARE BY FAR THE MOST VULNERABLE TO NATURAL AND MAN-MADE DISASTERS, THE VAGARIES OF WEATHER AND OF THE BUSINESS CYCLE. SHARP INCREASES IN THE PRICES OF OIL AND FOOD HAVE A DEVASTATING EFFECT ON THEIR LIVELIHOOD. RECESSIONS IN THE INDUSTRIAL COUNTRIES DEPRESS THEIR EXPORT EARNINGS.

4. THUS ECONOMIC SECURITY IS THE MINIMUM REQUIREMENT OF AN EFFECTIVE STRATEGY FOR DEVELOPMENT. WITHOUT THIS FOUNDATION, SOUND DEVELOPMENT PROGRAMS CANNOT PROCEED AND THE GREAT EFFORTS THAT DEVELOPMENT REQUIRES FROM POOR AND RICH ALIKE CANNOT BE SUSTAINED.

5. AND BECAUSE ECONOMIC SECURITY IS A GLOBAL PROBLEM, IT IS A GLOBAL CHALLENGE:

-- THE INDUSTRIAL NATIONS MUST WORK TOGETHER MORE EFFECTIVELY TO RESTORE AND MAINTAIN THEIR STABLE EXPANSION;

-- NATIONS WHICH SUPPLY VITAL PRODUCTS MUST AVOID ACTIONS WHICH DISRUPT THAT EXPANSION, AND
-- THE INTERNATIONAL COMMUNITY MUST UNDERTAKE A NEW APPROACH TO REDUCE DRASTIC FLUCTUATIONS IN THE EXPORT EARNINGS OF THE DEVELOPING COUNTRIES.

6. SINCE THE ECONOMIC HEALTH OF THE INDUSTRIAL COUNTRIES IS CENTRAL TO THE HEALTH OF THE GLOBAL
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ECONOMY, THEIR EFFORTS TO AVOID THE EXTREMES OF RECESSION AND INFLATION BECOME AN INTERNATIONAL, AS WELL AS A NATIONAL, RESPONSIBILITY.

7. IN A NEW DEPARTURE THIS PAST YEAR, THE LEADERS OF THE UNITED STATES AND ITS MAJOR TRADING PARTNERS HAVE BEGUN CLOSER COORDINATION OF THEIR NATIONAL ECONOMIC POLICIES. A SHARED SENSE OF URGENCY, AND THE EXCHANGE OF INFORMATION ABOUT TRENDS AND INTENTIONS, HAVE ALREADY INFLUENCED IMPORTANT POLICY DECISIONS. PRESIDENT FORD INTENDS TO CONTINUE AND INTENSIFY CONSULTATIONS OF THIS KIND. THE SUCCESSFUL RECOVERY OF THE INDUSTRIAL ECONOMIES WILL BE THE ENGINE OF INTERNATIONAL STABILITY AND GROWTH.

8. GLOBAL ECONOMIC SECURITY DEPENDS, SECONDLY,
ON THE ACTIONS OF SUPPLIERS OF VITAL PRODUCTS.

9. THUS THE UNITED STATES HAS BELIEVED THAT THE
FUTURE OF THE WORLD ECONOMY REQUIRES DISCUSSIONS
ON ENRGY AND OTHER KEY ISSUES AMONG OIL CONSUMING AND
PRODUCING NATIONS. THE GOVERNMENT OF FRANCE IS
INVITING INDUSTRIALIZED, OIL PRODUCING, AND DEVELOPING
NATIONS TO RE-LAUNCH A DIALOGUE THIS FALL ON THE
PROBLEMS OF ENERGY, DEVELOPMENT, RAW MATERIALS, AND
RELATED FINANCIAL ISSUES. THE UNITED STATES HAS
SUPPORTED THIS PROPOSAL AND WORKED HARD TO ESTABLISH
THE BASIS FOR SUCCESSFUL MEETINGS.

QPM VBUT THIS DIALOGUE IS PREMISED ON AN APPROACH
OF NEGOTIATION AND CONSENSUS NOT THE EXERCISE OF
BRUTE ECONOMIC POWER TO GAIN UNILATERAL ADVANTAGE.
THE ENORMOUS, ARBITRARY INCREASES IN THE PRICE
OF OIL OF 1973 AND 1974 HAVE ALREADY EXACERBATED
BOTH INFLATION AND RECESSION WORDWIDE. THEY HAVE

SHATTERED THE ECONOMIC PLANNING AND PROGRESS OF
MANY COUNTRIES. ANOTHER INCREASE WOULD SLOW DOWN
OR REVERSE THE RECOVERY AND THE DEVELOPMENT OF
NEARLY EVERY NATION REPRESENTED IN THIS ASSEMBLY.
IT WOULD ERODE BOTH THE WILL AND THE CAPACITY IN THE
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INDUSTRIAL WORLD FOR ASSISTANCE TO DEVELOPING
COUNTRIES. IT WOULD, IN SHORT, STRIKE A SERIOUS
BLOW AT THE HOPES OF HUNDREDS OF MILLIONS AROUND THE
WORLD.

11. THE FORTHCOMING DIALOGUE AMONG CONSUMERS AND PRODUCERS
IS A TEST. FOR ITS PART, THE UNITED STATES IS PREPARED FOR
COOPERATION. WE WILL WORK TO MAKE IT SUCCEED, IN OUR OWN
SELF-INTEREST AND IN THE INTEREST OF ALL NATIONS. WE
HOPE TO BE MET IN THAT SAME SPIRIT.

12. THE THIRD BASIC FACTOR IN ECONOMIC SECURITY
IS THE STABILITY OF EXPORT EARNINGS. THE DEVELOP-
MENT PROGRAMS -- INDEED THE BASIC SURVIVAL --
OF MANY COUNTRIES ARE HEAVILY DEPENDENT ON EARNINGS
FROM EXPORTS OF PRIMARY PRODUCTS WHICH ARE HIGHLY
VULNERABLE TO FLUCTUATIONS IN WORLDWIDE DEMAND.
COUNTRIES WHO DEPEND HEAVILY ON ONE PRODUCT CAN
FIND THEIR REVENUES REDUCED DRASTICALLY IF ITS
PRICE DROPS OR IF EXPORTS FALL PRECIPITOUSLY.
MOST HAVE INSUFFICINET RESERVES TO CUSHION AGAINST
SHARP DECLINES IN EARNINGS, AND THEY CANNOT QUICKLY
INCREASE THE EXPORTS OF OTHER PRODUCTS. FACING
SUCH ECONOMIC PROBLEMS, MOST CANNOT BORROW TO

OFFSET THE LOSS, OR CAN ONLY DO SO AT EXTREMELY HIGH INTEREST RATES. IN SUCH SITUATIONS COUNTRIES ARE FREQUENTLY FORCED TO CUT BACK ON THE IMPORTS ON WHICH THEIR GROWTH AND SURVIVAL DEPEND. THUS THE UNPREDICTABILITY OF EXPORT EARNINGS CLEARLY MAKES A MOCKERY OF DEVELOPMENT PLANNING.

13. THE QUESTION OF STABILIZATION OF INCOME FROM PRIMARY PRODUCTS THEREFORE HAS BECOME CENTRAL IN THE DIALOGUE ON INTERNATIONAL ECONOMIC CONCERNS. PRICE STABILIZATION IS NOT GENERALLY A PROMISING APPROACH. FOR MANY COMMODITIES IT WOULD BE DIFFICULT TO ACHIEVE WITHOUT SEVERE RESTRICTIONS ON PRODUCTION OR EXPORTS, EXTREMELY EXPENSIVE BUFFER STOCKS, OR PRICE LEVELS WHICH COULD STIMULATE SUBSTITUTES AND THEREBY WORK TO THE LONG RANGE DISADVANTAGE OF PRODUCERS. AND EVEN THE MOST CONFIDENTIAL

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AMBITIOUS AGENDA FOR ADDRESSING INDIVIDUAL COMMODITIES WOULD NOT RESULT IN STABILIZATION ARRANGEMENTS FOR ALL OF THEM IN THE NEAR TERM. MOREOVER, FOCUSING EXCLUSIVELY ON STABILIZING COMMODITY PRICES WOULD NOT PROVIDE SUFFICIENT PROTECTION TO THE MANY DEVELOPING COUNTRIES WHOSE EARNING ALSO DEPEND ON THE EXPORTS OF MANUFACTURED GOODS.

14. THE UNITED STATES GOVERNMENT HAS RECENTLY COMPLETED A REVIEW OF THESE ISSUES. WE HAVE CONCLUDED THAT, BECAUSE OF THE WIDE DIVERSITY AMONG COUNTRIES, COMMODITIES, AND MARKETS, A NEW, MUCH MORE COMPREHENSIVE APPROACH IS REQUIRED -- ONE WHICH WILL BE HELPFUL TO EXPORTERS OF ALL COMMODITIES AND MANUFACTURED GOODS AS WELL.

15. LET ME SET FORTH OUR PROPOSAL: THE UNITED STATES PROPOSES CREATION -- IN THE INTERNATIONAL MONETARY FUND -- OF A NEW DEVELOPMENT SECURITY FACILITY TO STABILIZE OVERALL EXPORT EARNINGS.

-- THE FUND WOULD GIVE LOANS TO SUSTAIN DEVELOPMENT PROGRAMS IN THE FACE OF EXPORT FLUCTUATIONS -- UP TO \$2.5 BILLION, AND POSSIBLY MORE, IN A SINGLE YEAR, AND A POTENTIAL TOTAL OF \$10 BILLION IN OUTSTANDING LOANS.

-- ASSISTANCE WOULD BE AVAILABLE TO ALL DEVELOPING COUNTRIES WHO NEED IT TO FINANCE UNAVOIDABLE SHORTFALLS IN EXPORT EARNINGS.

-- THE POOREST COUNTRIES WOULD BE PERMITTED TO CONVERT THEIR LOANS INTO GRANTS UNDER PRESCRIBED

CONDITIONS.

-- ELIGIBLE COUNTRIES COULD DRAW UP TO THE FULL AMOUNT OF THEIR IMF QUOTAS, IN ADDITION TO THEIR NORMAL DRAWING RIGHTS. MUCH OF THAT COULD BE DRAWN IN A SINGLE YEAR, IF NECESSARY -- PART AUTOMATICALLY, PART SUBJECT TO PARTICULARLY ADVERSE CHANGED IN OVERALL BALANCE OF PAYMENTS CONDITIONS, CONFIDENTIAL

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AND PART SUBJECT TO PARTICULARLY VIOLENT SWINGS IN COMMODITY EARNINGS.

(QUERY TO WASHINGTON: PLEASE SCRUTINIZE THIS LANGUAGE.)

-- THIS FACILITY WOULD REPLACE THE IMF'S COMPENSATORY FINANCE FACILITY; IT WOULD NOT BE AVAILABLE FOR INDUSTRIAL COUNTRIES.

16. THE UNITED STATES WILL PRESENT ITS DETAILED PROPOSALS TO THE BOARD OF DIRECTORS OF THE INTERNATIONAL MONETARY FUND THIS FALL.

17. THIS DEVELOPMENT SECURITY FACILITY WOULD SIGNIFICANTLY INCREASE THE AMOUNT AVAILABLE TO COVER SHORTFALLS, LIBERALIZE THE CRITERIA FOR CALCULATING THEM, FACILITATE DRAWINGS, AND INTORDUCE A GRANT ELEMENT. IT WOULD THUS PROVIDE UNPRECEDENTED PROTECTION AGAINST DISRUPTIONS CAUSED BY REDUCTIONS IN EARNING -- BOTH FOR COUNTRIES WHOSE EXPORTS CONSIST OF A FEW VITAL COMMODITIES AND FOR THOSE WITH DIVERSIFIED AND MANUFACTURED EXPORTS WHOSE EARNINGS ALSO FLUCTUATE WITH THE BUSINESS CYCLE. INDEED IN ALMOST EVERY CASE, THIS NEW FACILITY WILL COVER THE ENTIRE EARNING SHORTFALL.

18. THIS NEW SURGE OF FUNDS ALSO REINFORCES OUR MORE TRADITIONAL TYPES OF ASSISTANCE -- WITHOUT THE STABILIZATION OF EARNINGS, THE BENEFITS OF CONCESSIONAL AID FOR DEVELOPING COUNTRIES IS VITIATED. (QUERY TO WASHINGTON: CAN WE EXPLAIN MORE PRECISELY HOW WE ARE BREAKING NEW GROUND IN THE CONCEPT OF AID?) FOR INDUSTRIALIZED COUNTRIES, IT MEANS A MORE STEADY EXPORT MARKET. FOR DEVELOPING COUNTRIES, IT ASSURES THAT DEVELOPMENT CAN BE PURSUED WITHOUT DISRUPTION AND MAKES THEM MORE DESIRABLE PROSPECTS IN INTERNATIONAL CAPITAL MARKETS. FOR CONSUMERS AND PRODUCERS, RICH AND POOR ALIKE, IT BUTTRESSES ECONOMIC SECURITY.

19. THUS THE SUCCESS OF OUR EFFORTS IN THIS AREA CONFIDENTIAL

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WILL DEMONSTRATE THAT OUR INTERDEPENDENCE CAN
STRENGTHEN THE FOUNDATIONS OF PROSPERITY FOR ALL
WHILE PROMOTING PROGRESS IN THE DEVELOPING COUNTRIES.

END TEXT.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 18 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 30 AUG 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE207600
Document Source: ADS
Document Unique ID: 00
Drafter: S/S:MTANNER
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750897/abbrzoak.tel
Line Count: 283
Locator: TEXT ON-LINE
Office: n/a
Original Classification: CONFIDENTIAL
Original Handling Restrictions: NODIS EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: NODIS EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 12 AUG 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 AUG 2003 by KelleyW0>; APPROVED <10 NOV 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: LOCK1
Status: NATIVE
Subject: UNGA SPEECH
TAGS: OVIP (KISSINGER, HENRY A.)
To: USUN NY
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006